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Australia

Livestock and Products

New Export Scheme for Beef to the U.S. Announced 2002

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Report Highlights:

Agriculture Minister Truss has announced a new allocation scheme for Australia's beef exports to the United States for 2003 and 2004.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Canberra [AS1], AS

Australia's beef exports to the United States are subject to an annual tariff-rate-quota (TRQ). Under the TRQ, Australia is permitted to supply 378,214 metric tons of beef to the United States annually at a low (2.2 U.S. cents per pound), "in-quota" tariff rate. Once the 378,214 metric tons is entered, additional shipments of beef are assessed an "over-quota" tariff of 26 percent. Alternatively, instead of paying this higher tariff, the product can be held "in bond" to be entered at the lower-tier rate in the following quota year.

Prior to 2001, Australia's beef exports to the United States were insufficient to fill the TRQ. In September 2001, however, an outbreak of BSE in Japan resulted in a sharp drop in beef shipments to Japan, Australia's leading beef export market on a value basis. Declining exports to Japan, combined with a weakening in the Australian dollar, provided an added incentive to ship beef to the United States. As a result of an accelerated pace of shipments to the United States, the U.S. TRQ was filled in late 2001. This development created major difficulties for exporters intending to ship beef to the U.S. market at the end of the 2001 quota year.

The filling of the U.S. TRQ in 2001 and a fast pace of exports to the United States in early 2002 created pressure on the Australian government to adopt a scheme for sharing beef exports to the U.S. market. In May 2002, the Minister for Agriculture Fisheries and Forestry Australia, Warren Truss, responded by announcing management controls for the export of beef to the United States in calendar year 2002. The introduction of an export allocation scheme for beef shipments to the United States created considerable conflict within the domestic industry. (See Report AS2023, 9/9/2002, for a description of the allocation scheme in place for CY 2002.)

With the possibility that the U.S. TRQ may be filled again next year, Minister Truss announced on October 11, 2002 a new allocation scheme for Australia's beef exports to the United States under the TRQ for 2003 and 2004. The scheme is based on recommendations of an Independent Quota Management Panel appointed by Minister Truss to study the issue. In announcing the new scheme, Minister Truss stated that the "model was the most efficient, fair and equitable, and the simplest and most transparent to administer." The scheme differs somewhat from the results of an Australian Senate inquiry that investigated the matter and from recommendations from major components of the domestic industry.

Under the new export scheme, access to the U.S. beef TRQ will be allocated on a "80/20" basis, i.e., 80 percent of the TRQ will be received by exporters on the basis of previous shipments, while all beef exporters compete for the remaining 20 percent. (In 2002, the allocation scheme was based on a "60/40" formula.) For calendar year 2003, the allocations will be based on the average shipments in the 2001-2002 base period. As a special measure for 2003, Minister Truss announced that 15,000 metric tons of the U.S. quota will be set aside as a discretionary provision for exporters adversely affected by the change to shipper of record or by abnormal events in the base years.

For subsequent years the annual allocations will be derived using a three-year rolling average based on previous shipping years (based on November through October).

Based on the recommendation of the Panel, the rights to the quota will be tradeable, and the allocation system will be reviewed again in 2005.

The Independent Quota Management Panel noted that the quota scheme should recognize existing commercial relationships and not be used to diversify markets. The Panel also noted that a model based only on global exports, which was favored by the Senate inquiry and major components of the domestic industry, would unfairly hurt companies which had built the U.S. market in favor of newcomers.

The Quota Management Panel report is available on-line at www.affa.gov.au/quota

Beef industry interests that have traditionally specialized in shipping beef to the U.S. market generally support the new allocation scheme. Those that traditionally specialized in supplying the higher-valued Japanese and other non-U.S. markets argued for the allocation scheme to be more heavily weighted toward a global allocation.

There will be less incentive to ship to the U.S. market as beef exports to the Japanese market return to more traditional levels. (However, the possibility that Japan will invoke a safeguard on beef imports in CY 2003 could derail this rebuilding.) A recent appreciation in the Australian dollar relative to the U.S. dollar also makes shipments to the U.S. market less attractive. If annual beef shipments to the U.S. fall enough, the whole allocation scheme becomes largely irrelevant.